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UNICEF Office of Internal Audit and Investigations 2016 annual report to the Executive Board

Summary

This report provides information on the activities of the Office of Internal Audit and Investigations (OIAI) during the year ended 31 December 2016. It presents an overview of OIAI, describes the key issues highlighted by its internal audit and investigations work, and provides information on the disclosure of internal audit reports during 2016. In response to Executive Board decision 2015/11, the report also provides an overall opinion, on the basis of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control.

The management response to the OIAI report is presented separately, as requested by the Executive Board in its decision 2006/18. The annual report of the UNICEF Audit Advisory Committee for 2016 is available on the Executive Board website.

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I. Executive summary

1. The Office of Internal Audit and Investigations (OIAI) provides UNICEF with independent and objective assurance and advisory services and investigations, in accordance with the Charter approved by the Executive Director.

2. Internal audits performed by OIAI help UNICEF to improve its programmatic and other activities, to increase transparency, and to strengthen accountability for the efficient and effective use of resources to achieve results for children. The office also undertakes investigations into alleged misconduct to help the organization to implement a zero-tolerance policy on fraud, corruption and other abuse. Its broad institutional coverage allows OIAI to focus management attention on trends in the effectiveness of governance, risk management and controls, while providing reasonable assurance to stakeholders. The OIAI quality assurance and improvement programme confirmed that during 2016 the office continued to operate in accordance with relevant professional standards.

3. The office issued 22 audit reports during the 2016 audit year, and a further 13 reports were at various stages of completion at year end. The reports contained 304 actions (including 69 rated as high priority) that management had agreed to implement to address the risks and issues identified. The office also issued a report from an advisory engagement, and provided advisory support to management in several other areas.

4. As a routine part of its work, OIAI reviews the status of implementation of previously agreed audit actions to ensure that any residual risks are addressed by management. The office was pleased to note a significant improvement in implementation rates for older actions, with only 5 actions outstanding for more than 18 months as at 31 December 2016, compared with 18 at the end of 2015 and 20 at the end of 2014.

5. For the second year, in response to Executive Board decision 2015/11, the office provided an overall assurance opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls. In summary, in the opinion of OIAI, this framework was generally satisfactory during 2016.

6. The office has continued to publicly disclose its internal audit reports, contributing to increased accountability and transparency to UNICEF stakeholders. The office is pleased to report that in 2016 UNICEF complied with the requirements of Executive Board decision 2012/13. A total of 20 audit reports were disclosed during the year, while 1 report was withheld by the OIAI Director after determining that the request to withhold it met the criteria outlined in decision 2012/13.

7. The office managed 113 investigation cases in 2016, comprising 72 allegations received in 2016 and 41 carried over from previous periods, and closed 71 of these during the year. A total of 22 cases resulted in submission to the Division of Human Resources (DHR) to consider disciplinary action, while 7 more were referred for recovery or other actions. In 25 of the 71 cases closed, the allegations could not be substantiated based on the evidence available. In four more cases the complaint was withdrawn before the investigation was complete, while five cases were closed due to the staff member resigning during the course of the investigation. The office identified gross losses from investigations during 2016 amounting to $1,223,860, of which $114,124 had been recovered as at 31 December 2016. Recovery action was continuing after the year end in a number of cases. The office also provided advice to help UNICEF to reduce the future risk of fraud, other misconduct and mismanagement.

8. The office continued to engage effectively with the Audit Advisory Committee (AAC) throughout the year, to help the Committee to fulfil its mandate. The AAC monitored the work of OIAI and provided welcome advice to further enhance the effectiveness of the audit and investigations functions.

9. The office is grateful to the UNICEF Executive Director and senior management for their strong support throughout 2016. UNICEF management remains committed to developing and implementing appropriate responses to address the risks reported by OIAI.

10. During 2016, the office also revisited its strategic direction for 2017 and beyond, and this will inform its office management plan (OMP) for the period covered by the UNICEF Strategic Plan, 2018-2021. The new strategic direction will help OIAI to further strengthen its capacity and capability to meet the organization's evolving assurance and integrity needs effectively and efficiently. It incorporates an enhanced focus on key risks and issues for UNICEF, such as ensuring value for money, preventing or detecting fraud and corruption, leveraging technology and innovation, and further strengthening programme management to deliver results for children.

II. Mandate and operations

11. The purpose, authority and responsibilities of OIAI are defined in the Charter approved by the Executive Director. The office provides UNICEF with an effective system of independent and objective internal oversight, which is designed to help the organization to fulfil its fiduciary responsibilities in achieving its programme goals for the protection and realization of the rights of children and women. Internal audits accomplish this by providing independent, objective assurance and advisory services, which are designed to add value and to improve the organization's operations. Investigations help the organization to implement a zero-tolerance policy towards misconduct, fraud and corruption by examining and determining the veracity of allegations of corrupt or fraudulent practices involving UNICEF and third parties, as well as allegations of other misconduct involving UNICEF staff, non-staff personnel, consultants and institutional contractors.

12. In 2016, OIAI continued to receive strong support and cooperation from UNICEF senior management. The OIAI Director had regular communication with the Executive Director and senior management to discuss the results from audits and investigations as well as progress in implementing the divisional workplan. The OIAI Director also participated in senior management meetings to keep up-to-date with changes in the organization's activities and risk profile, and engaged directly with management on emerging key risks and issues.

13. The office engaged in formal and informal discussions with other internal oversight functions within UNICEF, and participated in meetings with donors and their auditors to facilitate cooperation and collaboration. The office also actively participated in the activities of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS), the Representatives of Investigative Services of the United Nations Organizations, and the Conference of International Investigators. Additionally, OIAI collaborated in three inter-agency audits to address common risks for pooled funding, the "Delivering as one" initiative and operations of the Central Emergency Response Fund (CERF), and cooperated with the heads of investigation sections across the United Nations system to share information and good practices on fraud prevention and awareness.

14. The main elements that contribute to the effective and efficient discharge of the OIAI mandate and its usefulness to key stakeholders are its functional independence, access to people and records, inclusive risk-based planning, sufficiency of resources (which allow appropriate internal audit and investigation coverage), knowledge and understanding of UNICEF and its operating environment, and quality and timeliness of audit and investigation results.

III. Independence and external oversight

15. The office hereby confirms its organizational independence. In 2016, OIAI was free from management interference in determining the scope of its internal audit and investigations, performing its work and communicating its results.

16. The AAC continued to provide independent advice to the Executive Director to promote the effectiveness of internal audits and investigations. During 2016, the AAC reviewed the UNICEF Office of Internal Audit and Investigations 2015 annual report to the Executive Board, as well as the OIAI 2016 workplan and quarterly progress reports on its implementation. The AAC also confirmed that OIAI had satisfactorily addressed the outstanding recommendations of the 2013 external quality assurance review. The OIAI Director attended all AAC meetings in 2016.

17. In 2016, the United Nations Board of Auditors continued to rely on internal audit work performed by OIAI.

IV. Professional standards

18. The work of OIAI follows relevant professional standards. Internal audit work is conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, which RIAS adopted in June 2002. The office conducts investigations in accordance with the Uniform Principles and Guidelines for Investigations, which were endorsed by the 10th Conference of International Investigators in 2009, and in conformity with due-process principles stipulated in chapter X of the United Nations Staff Regulations and Rules.

19. The office maintains a quality assurance and improvement programme, which includes internal quality assessments that involve ongoing performance monitoring and periodic reviews, and external quality assessments conducted at least every five years by a qualified independent external reviewer. The last external quality assessment was conducted in 2013. The office's ongoing quality assurance and improvement programme confirmed that the internal audit activity continued to operate during 2016 in general conformity with international internal auditing standards as promulgated by the Institute of Internal Auditors.

V. Resources

20. The office had a budget of $7.57 million for 2016, of which 95 per cent was expended by year end. The largest expenditure categories were staff salaries and travel. The budget also included an increased allotment to fund an additional P-4 investigator position, which was filled.

21. In 2016, the OIAI structure had 33 staff positions as follows: director, deputy director, 2 chiefs of audit, chief of investigations, senior auditor responsible for professional practices, editor, 17 auditors, 6 investigators and 3 administrative

assistants. As at 31 December 2016, action was under way to fill the deputy director position and actions had been completed to fill an investigator position, both of which fell vacant during the year.

22. The office received support from 10 operations staff from UNICEF country offices, who assisted OIAI in audits of offices other than their own, under the direct supervision of the OIAI audit team. The cost to OIAI for this support was $54,374 in travel expenditure. The office also engaged third-party consultants to support specific investigation activities, at a cost of $52,695.

23. Based on the activities identified in its risk-adjusted workplan, and having reviewed the office's performance against that plan for the year ended 31 December 2016, OIAI considers that its available resources for the year were generally appropriate and sufficient. The office will review and reassess its financial and human resource needs for the period 2018 to 2021 while drafting its new OMP.

VI. Internal audit workplan

24. The OIAI annual workplan is designed to identify the most significant risks to the achievement of UNICEF objectives, and the audit engagements and resources needed to help to address those risks. The office thus adds value to UNICEF operations and provides assurance to the Executive Board and other stakeholders on the adequacy of the UNICEF framework of governance, risk management and control.

25. The OIAI annual workplan uses a combined top-down and bottom-up approach to ensure identification of significant risks across the organization. The workplan is designed to deliver a dynamic contribution to achieving better governance, robust risk management and more reliable controls. As appropriate, it includes internal audits of country and regional offices, headquarters units, organizational processes, country programmes and inter-agency activities. The reports issued from audit and advisory assignments in 2016 are summarized in annex 1.

26. As in previous years, the biggest component of the 2016 audit workplan was at the country-office level, largely reflecting the organization's decentralized programming and management structure in which a substantial number of the risks identified in the OIAI risk assessment are managed by country offices, with the support of the regional offices and headquarters divisions. Through its risk-based planning, the OIAI 2016 workplan ensured adequate audit coverage of the main risks to UNICEF.

27. By maintaining its focus on the risks and issues of greatest importance to UNICEF and through compliance with its Charter, OIAI deployed its resources effectively throughout the year, adjusting its audit plans as necessary to reflect changes in the UNICEF risk profile, organizational priorities, operating environment and assurance needs.

28. The office issued 22 final audit reports during 2016, and a further 13 internal audits were in the reporting phase at the year end. Fieldwork had been completed for all the audits included in the 2016 risk-adjusted workplan. Based on an ongoing assessment of the changing risk profile of UNICEF as well as organizational change initiatives and priorities, a number of audits had been deferred, while others were added to the workplan. The office is satisfied that these adjustments had no adverse impact on the ability of OIAI to provide the assurance required by its stakeholders. The majority of the deferred audits feature in the 2017 audit workplan. One

advisory engagement resulted in issuance of a formal report, and advice was provided in five other areas.

VII. Internal audit assurance summary and opinion

29. Executive Board decision 2015/11 requested OIAI to include in its future annual reports "(a) An opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control; (b) A concise summary of work and the criteria that support the opinion; (c) A statement of conformance with the internal audit standards to which UNICEF adheres; [and] (d) A view on whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage."

30. Internal audits provide assurance to the Executive Director and the Executive Board on the adequacy and effectiveness of UNICEF governance, risk management and control processes to ensure efficient and effective use of UNICEF resources; safeguarding of assets; compliance with regulations, rules and policies; and reliable reporting on financial and programme performance. UNICEF management is responsible for establishing and maintaining effective internal control, governance and risk-management processes to ensure organizational objectives are achieved. The responsibility of OIAI is to independently assess the adequacy and effectiveness of such a framework.

31. The OIAI opinion is based on the results of the internal audits and other assurance activities undertaken by the office in 2016. The overall opinion is intended to provide reasonable, not absolute, assurance for stakeholders, and, in compliance with decision 2015/11, is based specifically on the work that has been performed.

32. The OIAI risk-based planning and multi-year cycle ensure that audit resources are directed towards the areas of greatest significance to the organization. This, together with the broad audit coverage obtained during the year, helps the office to draw an overall conclusion.

33. The internal audit reports issued in 2016 comprised audits of activities in 18 field offices, 3 thematic processes and 1 headquarters division. The majority of the audit reports issued in 2016 provided assurance on the operational and programmatic activities of UNICEF during 2015 and 2016 (see annex 1).

34. Based on the results of each audit, OIAI assigns an overall rating. Listed from positive to negative, these ratings are: (a) unqualified; (b) moderately-qualified; (c) strongly-qualified; and (d) adverse. This four-classification rating and its associated criteria give management an overall picture of audit results of the organizational unit or function that was audited and help to focus attention, particularly on those audits that are rated "adverse" or "strongly-qualified". Adverse or strongly-qualified (unsatisfactory) audit ratings mean that OIAI audit work suggests that controls and processes related to the entity audited require improvement in order to be regarded as adequately established and functioning. Conversely, "unqualified" or "moderately-qualified" (satisfactory) audit ratings signal to management that controls and processes are generally established and functioning as intended.

35. Of the 22 internal audit reports issued in 2016, 17 (or 77 per cent) were rated "satisfactory" overall on the basis set out in the paragraph above, while the remaining 5 (23 per cent) were rated as "unsatisfactory".

36. The implementation rate of audit recommendations as at 31 December 2016 was 99.6 per cent for reports issued in 2013, 99.2 per cent for reports issued in 2014, and 94.3 per cent for reports issued in 2015. These rates provide additional evidence that appropriate and timely action is being taken by management as and when improvements in governance, risk and controls are necessary.

37. The preponderance of satisfactory ratings from individual internal audit reports, together with the high implementation rates for agreed audit actions and the absence of any individual findings that reveal fundamental flaws in the organization's governance, risk management and control systems, has allowed OIAI to provide an overall opinion on the adequacy and effectiveness of the UNICEF framework of governance, risk management and control.

Annual assurance opinion

38. **In the opinion of OIAI, based on the scope of work undertaken, the adequacy and effectiveness of the UNICEF framework of governance, risk management and control were generally satisfactory. Although internal audits identified a number of areas where internal controls and governance and risk management practices required strengthening, OIAI was pleased to note that management had committed to address, or was already addressing, these areas.**

39. The office has been monitoring and supporting a number of management initiatives to strengthen organizational accountability and delivery systems. These efforts include revision of the UNICEF regulatory framework; use of results scorecards at the country-office level; reforms of staff recruitment and performance management; better leveraging of information technology and innovation; and expansion of the Global Shared Services Centre (GSSC). These are all key enablers of improved organizational performance, and OIAI will continue to engage with these initiatives during 2017.

VIII. Disclosure of internal audit reports

40. The office's audit work directly contributed to efforts by UNICEF to provide greater accountability and transparency to stakeholders. In accordance with Executive Board decision 2012/13, OIAI has publicly disclosed internal audit reports issued after 30 September 2012. Of the 22 internal audit reports issued in 2016, 10 had been publicly disclosed in full by the end of 2016, together with 10 reports that had been under review at 31 December 2015. One report was withheld by the OIAI Director after determining that the reasons for the request to withhold it met one of the criteria outlined in Executive Board decision 2012/13. The majority of the remaining audit reports were issued around the end of 2016, and are therefore due to be disclosed early in 2017. The office is happy to report that UNICEF continued to comply with the requirements of decision 2012/13 during 2016. All internal audit reports disclosed to date may be viewed at www.unicef.org/auditandinvestigation.

IX. Internal audit results

A. Actions agreed by management

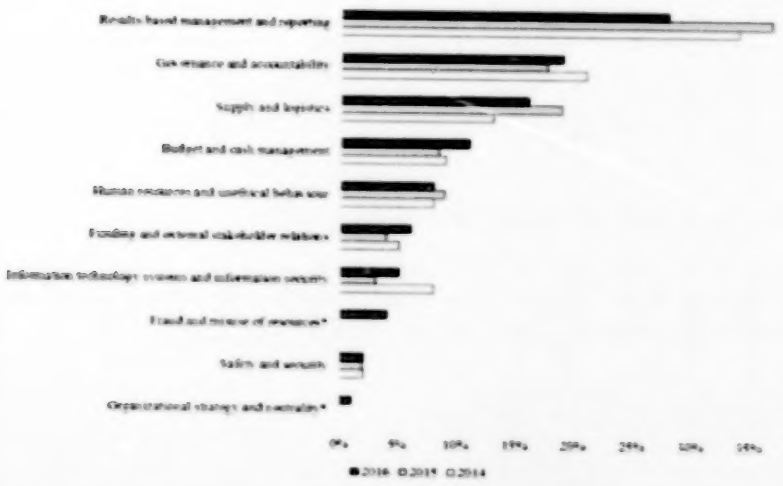
41. The 22 internal audit reports issued by OIAI contained 304 actions that management agreed to take in order to address the risks and weaknesses identified by the audits. Of these, 69 actions (23 per cent) were rated as high priority. In table 1, OIAI has categorized the actions agreed under the risk areas UNICEF has defined in its risk assessment and reporting structure.

Table 1
Number of agreed actions by key risk area, 2016

Risk area	Number of agreed actions		Percentage of total	
	Total	High priority	Total	High priority
1. Results-based management and reporting	85	24	28%	35%
2. Governance and accountability	57	7	19%	10%
3. Supply and logistics	48	13	16%	19%
4. Budget and cash management	33	5	11%	7%
5. Human resources and unethical behaviour	25	4	8%	6%
6. Funding and external stakeholder relations	19	8	6%	12%
7. Information technology systems and information security	14	3	4%	4%
8. Fraud and misuse of resources	11	2	4%	3%
9. Safety and security	8	2	3%	3%
10. Organizational strategy and neutrality	3	–	1%	–
11. Natural disasters and epidemics	1	1	–	1%
Total	**304**	**69**	**100%**	**100%**

42. The distribution of agreed actions by UNICEF risk area in 2016 shows a similar pattern to prior years, with three areas presenting the highest levels of residual risk: results-based management and reporting; governance and accountability; and supply and logistics. These three areas represent 63 per cent of all agreed actions (and 64 per cent of all high-priority actions). The distribution of agreed actions for 2016 as compared with 2015 and 2014 is shown in figure 1 below.

Figure 1
Distribution of agreed actions by key risk area for 2014, 2015 and 2016



* There were no agreed actions for these areas in prior years.

43. The key processes where management action should continue to be prioritized in order to improve results are described in annex 2. UNICEF management has

agreed to and has taken, or is taking, action to address the issues identified in internal audits to further strengthen management for results.

B. Distribution of audit ratings

44. The office assigns an overall audit rating based on the results of an audit. Listed from positive to negative, these ratings are: (a) unqualified, (b) moderately-qualified, (c) strongly-qualified, and (d) adverse. Table 2 presents the distribution of ratings by type of audit. As noted above, 77 per cent of the internal audit reports issued in 2016 were rated as satisfactory (either "unqualified" or "moderately-qualified"). This compares with 71 per cent rated as satisfactory in 2015, although caution should be exercised in making comparisons across years given variations in the nature, scope and complexity of audits undertaken each year, and in the operating context and risk profile of the activities being audited.

Table 2
Distribution of audit ratings

Audit area	*UNICEF region*	*Number of audits*	*Number of unqualified ratings*	*Number of moderately-qualified ratings*	*Number of strongly-qualified ratings*	*Number of adverse ratings*
Field office audits	ESAR	4	0	3	1	0
	WCAR	3	1	0	1	1
	MENA	3	0	2	0	1
	CEE/CIS	3	3	0	0	0
	SA	2	0	1	1	0
	EAPR	2	0	2	0	0
	LACR	1	0	1	0	0
Headquarters/thematic		4	0	4	0	0
Total		**22**	**4**	**13**	**3**	**2**

Key: CEE/CIS: Central and Eastern Europe and the Commonwealth of Independent States (region); EAPR: East Asia and the Pacific region; ESAR: Eastern and Southern Africa region; LACR: Latin America and Caribbean region; MENA: Middle East and North Africa (region); SA: South Asia (region); WCAR: West and Central Africa region.

C. Significant results of country/area office audits

45. The office issued 18 field office audit reports for 2016, covering UNICEF offices in each of the seven regions. Table 3 shows the distribution of the 248 agreed actions from field audits, by risk area and region.

Table 3
Distribution of agreed actions, by risk area and region

Risk area	*ESAR 4 audits*	*WCAR 3 audits*	*MENA 3 audits*	*CEE/CIS 3 audits*	*SA 2 audits*	*EAPR 2 audits*	*LACR 1 audit*	***Total 18 audits***	***Percentage of total***
Results-based management and reporting	17	16	19	4	6	9	4	**75**	**30%**
Governance and accountability	7	14	8	3	4	4	–	**40**	**16%**
Supply and logistics	8	7	9	5	5	3	3	**40**	**16%**
Budget and cash management	3	7	5	2	2	3	2	**24**	**10%**

Risk area	*ESAR 4 audits*	*WCAR 3 audits*	*MENA 3 audits*	*CEE/CIS 3 audits*	*SA 2 audits*	*EAPR 2 audits*	*LACR 1 audit*	***Total 18 audits***	***Percentage of total***
Human resources and unethical behaviour	7	6	3	–	4	–	1	**21**	**9%**
Funding and external stakeholder relations	4	2	3	1	3	2	1	**16**	**7%**
Fraud and misuse of resources	2	–	–	1	8	–	–	**11**	**4%**
Information and communications technology and information security	3	2	1	1	1	1	–	**9**	**4%**
Safety and security	1	2	–	–	2	2	1	**8**	**3%**
Organizational strategy and neutrality	–	3	–	–	–	–	–	**3**	**1%**
Natural disasters and epidemics	–	–	1	–	–	–	–	**1**	–
Total	**52**	**59**	**49**	**17**	**35**	**24**	**12**	**248**	
Percentage of the total	**21%**	**24%**	**20%**	**7%**	**14%**	**9%**	**5%**		**100%**

Key: CEE/CIS: Central and Eastern Europe and the Commonwealth of Independent States (region); EAPR: East Asia and the Pacific region; ESAR: Eastern and Southern Africa region; LACR: Latin America and Caribbean region; MENA: Middle East and North Africa (region); SA: South Asia (region); WCAR: West and Central Africa region.

46. The three most significant risk areas identified for continuing management action are results-based management and reporting; governance and accountability; and supply and logistics. These areas accounted for 62 per cent of all agreed actions (as compared to 73 per cent in 2015).

47. The continued emphasis on these areas in country office audits has helped management to focus attention on addressing some of the underlying control and compliance gaps in key processes relating, inter alia, to programme planning, risk assessment and reporting, implementation support, monitoring and evaluation, and procurement and contracting.

48. The office has also increased its focus on fraud risk management as well as broader strategic risks through its field audits. Continued constructive engagement by OIAI with UNICEF country offices is enhancing their management oversight, risk management and performance management, thus strengthening the organization's ability to deliver results for children.

D. Significant results of headquarters and thematic audits

49. Internal Audit of Programme Division (2016/11): This audit covered the governance and partnerships, technical assistance and programme-support functions of the Programme Division (PD). It noted controls functioning well in many areas, including establishment of a framework of engagement with regional offices and issuance of standard operating procedures covering important processes such as engagement with field offices, donors and partners. The audit resulted in five high-priority agreed actions, including the need to clarify key roles and responsibilities and provide a reference point for interdivisional collaboration; ensure that the division's operating structure and resources are aligned with the approved office management structure; regularly monitor budget allotments and utilization; establish clearer linkages between the results outlined in the UNICEF Strategic Plan, the divisional OMP and annual workplans; and develop specific resource mobilization strategies (including prioritizing underfunded outcome areas).

50. Internal Audit of the Procurement of Programme Supplies by Supply Division for delivery to Country Offices (2016/05): This audit covered governance, risk management and controls for such procurement. It noted controls functioning well

in a number of areas, including objective setting, risk management and performance monitoring. The audit resulted in two high-priority agreed actions relating to ensuring the validity, completeness and accuracy of vendor master records for specific vendor groups; and establishing an oversight mechanism to improve monitoring of contractor performance, including optimizing use of pre-delivery inspections.

51. Internal Audit of the ICT Infrastructure and Disaster Recovery Planning in Field Offices (2016/07)[1]: This audit covered the adequacy and effectiveness of governance, risk management and controls over the management of information and communications technology infrastructure and disaster recovery planning in the field offices.

52. Internal Audit of the Management of Other Resources (2016/08): This audit covered processes for managing other resources (OR), including accounting, allotment/allocation, monitoring and reporting on the use of OR and the achievement of results, and closing expired grants. The audit noted controls functioning well in a number of areas, including a defined resource mobilization strategy, structures for interdivisional coordination, and management of donor agreements. There were four agreed actions that related to the identification and management of risks relating to OR management; tracking submission of donor reports; enhancing timeliness of reporting; and monitoring overdue receivables and expiring grants.

E. Advisory services

53. Advisory reviews help management to improve systems, processes and controls, and complement the core assurance work of OIAI. In 2016, OIAI issued a formal advisory engagement report on the Private Fundraising and Partnerships (PFP) Division. The office also provided ongoing advisory support to line management in several areas, some of which also informed the planning for related assurance exercises in 2017.

F. Follow-up on audit recommendations

54. As part of its audit activity, OIAI undertook regular desk reviews to follow up on the progress of implementation of actions agreed by management, together with on-site follow-up as appropriate. Actions that had not been implemented for more than 18 months from the date of issuance of the final audit report are included in OIAI quarterly reports for the attention of the Executive Director, senior management and the AAC.

55. As of 31 December 2016, five recommendations had not been implemented for more than 18 months (see annex 3), four of which were rated as high priority. This represents a significant improvement over 2015, when there were 18 outstanding recommendations, and 2014, when there were 20. The five recommendations represent 2 per cent of the total number of actions open at the end of 2016.

[1] This report was withheld from disclosure in conformance with the criteria outlined in Executive Board decision 2012/13.

X. Investigations results

A. Case management

56. The office managed 113 investigation cases during 2016 (see table 4). This included 41 cases carried over from the previous period and 72 allegations received in 2016 that were found to constitute sufficiently serious suspicions of wrongdoing to merit investigation. At the end of 2016, 28 of the carried-over cases and 43 of the new cases received in 2016 had been closed.

Table 4
Processing of investigation cases in 2016

Status of cases	*Number of cases*
Carry-over as of 1 January 2016	41
Intake during the year	72
Total cases	**113**
Closed (from cases carried over from 2015)	(28)
Closed (from intake)	(43)
Total cases closed	**71**
Cases ongoing as of 31 December 2016	42

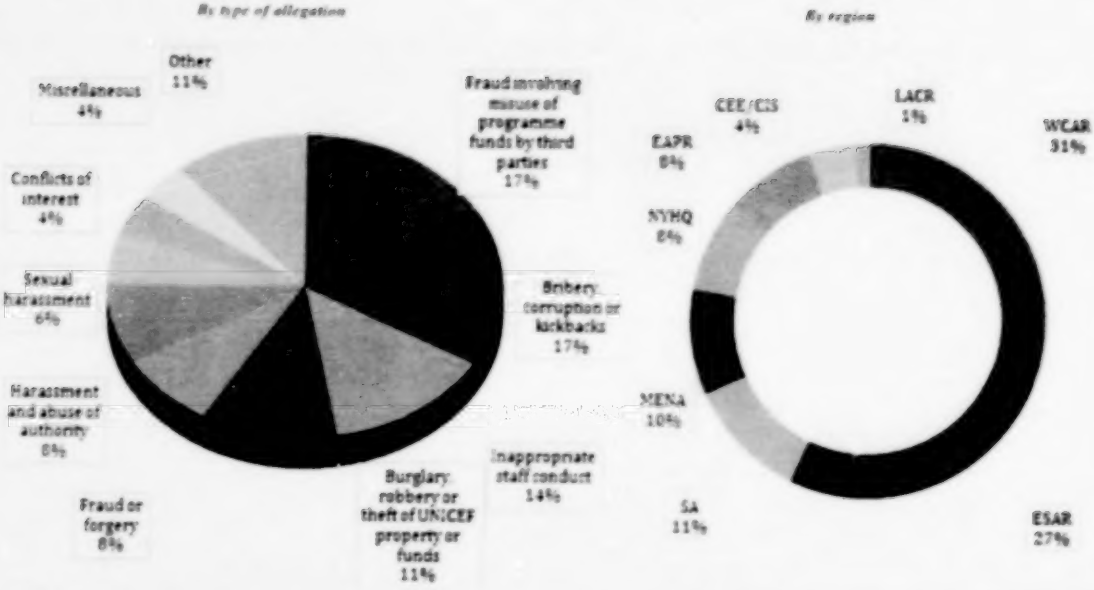
B. Analysis of cases

57. The office analyses allegations and cases that fall under 17 categories. In 2016, OIAI recorded cases within 14 of these 17 categories. Figure 2 presents the proportion of the 72 new allegations in 2016 among the major categories. The three categories where no allegations were recorded during the year were personnel disputes, whistle-blower retaliation, and wilfully making false allegations.

58. The majority of cases in 2016 were classified under four categories: fraud involving misuse of programme funds by third parties (12 cases); corruption, bribery and kickbacks (12 cases); inappropriate staff conduct (10 cases); and burglary, robbery or theft of UNICEF funds or property (8 cases). Compared to 2015, there was an increase in the number of cases of corruption, bribery and kickbacks (from 5 cases in 2015 to 12 cases in 2016). The number of cases of fraud involving misuse of programme funds by third parties more than halved, although this was largely a result of the 2015 total having included 16 inter-related cases concerning the same government implementing partner in one country office.

59. The majority of 2016 cases (69 per cent) originated from three regions: West and Central Africa (31 per cent), Eastern and Southern Africa (27 per cent), and South Asia (11 per cent).

Figure 2
Investigation case intake — 2016



* The category "Other" includes allegations relating to gross mismanagement resulting in financial or reputational damage to UNICEF; unauthorized use, misuse or waste of programme funds; procurement irregularities; and entitlements fraud. The category "Miscellaneous" includes issues relating to service delivery by implementing partners or their subcontractors.

Note: The majority of 2016 cases (69 per cent) originated from the three regions: West and Central Africa, Eastern and Southern Africa, and South Asia.

Key: CEE/CIS: Central and Eastern Europe and the Commonwealth of Independent States (region); EAPR: East Asia and the Pacific region; ESAR: Eastern and Southern Africa region; LACR: Latin America and Caribbean region; MENA: Middle East and North Africa (region); NYHQ: New York headquarters; SA: South Asia (region); WCAR: West and Central Africa region.

C. Disposition of completed cases

60. In 25 of the 71 completed cases, the case was closed because OIAI could not substantiate the allegation. Another five cases were closed due to the staff member resigning or retiring from the organization during the course of the investigation, and a further four were closed as the complaint was withdrawn. Eight cases were closed after action was taken by the country office. The disposition of all cases completed in 2016 is summarized in table 5. The office submitted 22 substantiated cases to DHR to consider disciplinary action, while 7 cases were referred to a UNICEF office, United Nations body or local authority for recovery or other action.

Table 5
Disposition of investigation cases completed in 2016

Type of closure	*Number of cases*	*Percentage of total*
Closure memorandum	**42**	**59%**
I(a) Allegation not substantiated	25	35%
I(b) Allegation in which staff member left the organization	5	7%
I(c) Allegation where complaint was withdrawn	4	6%

Type of closure	*Number of cases*	*Percentage of total*
(cd) Allegation with action taken by UNICEF offices (recovery of funds, written reprimand, or law enforcement investigation)	8	11%
Investigation report submitted to the Division of Human Resources	22	31%
Referral made to a UNICEF office, United Nations body or local authority	7	10%
Total cases closed in 2016	71	100%

61. The largest number of closed cases related to fraud involving misuse of programme funds by third parties (11 cases), and inappropriate staff conduct (11 cases). There were also seven cases of sexual harassment, assault or exploitation; seven of burglary, robbery or theft of UNICEF property or funds; six cases of harassment and abuse of authority; and three of bribery, corruption or kickbacks. Two substantiated cases of fraud involving misuse of programme funds by third parties were referred to the Principal Adviser to the Executive Director during the year. Four cases of inappropriate staff conduct; four cases of burglary, robbery or theft; three cases of bribery corruption or kickbacks; and one case of sexual harassment, assault or exploitation were submitted to DHR.

62. Of the 71 cases closed in 2016, 73 per cent were closed within nine months of receipt of the allegation.

63. The office identified gross potential losses in 12 cases amounting to $1,223,860, of which $114,124 had been reported to OIAI as recovered by 31 December 2016 (see table 6).

Table 6
Financial impact of investigation cases in 2016

Category	*Amount of potential loss**	*Amount recovered*
Fraud involving misuse of programme funds by third parties	$991 861	$76 316
Gross negligence	$180 798	–
Entitlements fraud	$37 498	$37 498
Burglary, robbery or theft of UNICEF property or funds	$11 653	$310
Fraud and forgery	$1 400	–
Harassment and abuse of authority	$650	–
Total	**$1 223 860**	**$114 124**

* These amounts refer to the financial impact of the loss assessed by the investigations, before recovery.

64. A number of OIAI investigations in 2016 established linkages between allegations of misconduct by staff members and fraud by implementing partners. Such cases accounted for 30 per cent ($369,108) of the losses described in table 6. Analyses of this nature help OIAI to provide useful advice to UNICEF offices so as to better address and manage the risks of fraud and corruption in their programmatic and other activities.

65. The cases ongoing as of 31 December 2016 mainly consisted of allegations of fraud involving misuse of programme funds by third parties; bribery, corruption or kickbacks; and burglary, robbery or theft of UNICEF property or funds.

D. Disciplinary measures and other actions taken

66. The office submitted 22 investigation reports to the Policy and Administrative Law Section of DHR for consideration of disciplinary or other action. By the end of 2016, the following actions had been taken:

(a) one summary dismissal;

(b) three separations;

(c) three losses of steps: one of one step, one of two steps, one of three steps;

(d) one demotion by one grade;

(e) two deferments of eligibility of within-grade salary increments (in one case for two years, and in another case for four years);

(f) three written reprimands;

(g) one written censure;

(h) one report resulted in no further action as it was considered a performance matter; and

(i) two reports resulted in no further action due to resignation or retirement of the staff members during the disciplinary process.

67. The office also submitted three closure memorandums when the staff resigned during the investigative process. A note for the record prepared by DHR and the related OIAI report were placed in the staff member's official status file in each case. No loss was identified in the cases where staff resigned during the investigative process.

E. Investigation advisory services

68. On two occasions in 2016, the Investigations Section provided formal advisory and proactive investigative support concerning a large number of allegations in one country.

69. The first occasion was to liaise with the United Nations Office of Internal Oversight Services (OIOS) and advise the concerned UNICEF country office in establishing, strengthening and maintaining efficient management of sexual exploitation and abuse investigations undertaken by OIOS and other United Nations agencies. On the second occasion, OIAI provided advice to, and worked closely with, a team consisting of headquarters and regional office staff to strengthen the country office's operations while also assessing allegations of misconduct.

70. Proactive support will form an increasing part of OIAI investigative activities in future. This helps management to deter, prevent or detect misconduct before it happens, rather than expending time and risking loss of funds and reputational damage after the fact.

XI. Strategic road map

71. In parallel with delivering its 2016 annual workplan, OIAI has reviewed its strategic direction to help to ensure that it can best support UNICEF to deliver results for children. UNICEF is undergoing major changes, both internally and in a more challenging external environment, with corresponding changes in the

likelihood, impact and complexity of the organization's risks. The office is adapting to these developments to ensure it continues to meet the requirements of its mandate, to leverage opportunities, and to maximize its contribution to the organization's success over the next Strategic Plan period.

72. The revised OIAI strategic direction includes a greater focus on key risks in order to enhance and protect organizational value; shifting to increasingly future-focused work that more routinely generates improvements and opportunities for added value; helping to strengthen programme management in particular; enhanced focus on value for money; increasing use of thematic approaches to providing assurance; more effective collaboration with other internal and external assurance providers; and building stronger capacity in areas such as use of technology and addressing fraud risks and exposures.

73. UNICEF senior management and the AAC are supportive of these changes. The revised strategic direction will form the basis of the OMP for 2018-2021, and OIAI will reassess its human and financial resource needs as part of the organization-wide preparation of an integrated budget for 2018 to 2021.

74. The office will also continue to build on and actively support ongoing initiatives to strengthen management systems within UNICEF. Together, these initiatives by OIAI and by management are progressively increasing the office's own efficiency and the effectiveness of its contribution to the overall success of UNICEF in delivering results for children.

Annex 1

Audit and advisory reports issued in 2016[1]

No.	Reference number	UNICEF audits	Number of agreed actions[2] Total	High priority	Report conclusion[3]
		Field offices			
1.	2016/01	Iraq Country Office	31	12	A
2.	2016/02	Tajikistan Country Office	8	–	U
3.	2016/03	Gambia Country Office	13	2	U
4.	2016/04	Indonesia Country Office	19	3	Q-M
5.	2016/06	South Africa Country Office	13	2	Q-M
6.	2016/09	Burundi Country Office	20	4	Q-M
7.	2016/10	Islamic Republic of Iran Country Office	12	2	Q-M
8.	2016/12	Bosnia and Herzegovina Country Office	4	–	U
9.	2016/13	Afghanistan Country Office	28	5	Q-S
10.	2016/15	Bulgaria Country Office	5	–	U
11.	2016/16	Swaziland Country Office	10	2	Q-S
12.	2016/17	State of Palestine Office	6	2	Q-M
13.	2016/18	Sri Lanka Country Office	7	1	Q-M
14.	2016/19	Colombia Country Office	12	3	Q-M
15.	2016/20	Guinea Country Office	25	6	Q-S
16.	2016/21	Chad Country Office	21	9	A
17.	2016/22	Ethiopia Country Office	9	3	Q-M
18.	2016/23	Lao People's Democratic Republic Country Office	5	1	Q-M
		Total	**248**	**57**	
		Headquarters and thematic area audits			
1.	2016/05	Procurement of Programme Supplies by Supply Division for delivery to Country Offices	11	2	Q-M
2.	2016/07	ICT [Information and Communications Technology] Infrastructure and Disaster Recovery Planning in Field Offices	10	1	Q-M
3.	2016/08	Management of Other Resources	18	4	Q-M
4.	2016/11	Programme Division	17	5	Q-M
		Total	**56**	**12**	
		Advisory services[4]			
1.	2016/14A	Strengthening management of the Division of Private Fundraising and Partnerships	NA	NA	NA
		Total	**304**	**69**	

NA = Not applicable.

[1] Audit and advisory reports are listed by report reference number.

[2] Some medium- or high-risk agreed action plans were communicated to the Executive Director confidentially to prevent organizational exposure to the related risks.

[3] Report conclusions may be classified as: unqualified (U); moderately-qualified (Q-M); strongly-qualified (Q-S); or adverse (A).

[4] In addition to the advisory report listed, OIAI also provided advice to management (without a report) in areas including the framework of European Commission verification missions, information and communications technology governance, information security and privacy, data quality, and the Global Shared Services Centre.

Annex 2

Key processes identified for priority action by management

Risk area and process	*High-priority agreed actions*	
	Number	*Percentage of total*
I. Results-based management and reporting	**24**	**35%**
1. Support to programme implementation	8	12%
2. Monitoring of programme implementation	5	7%
3. Programme planning	4	6%
4. Evaluation	4	6%
5. Reporting	3	4%
II. Supply and logistics	**13**	**19%**
1. Procurement and contracting	8	12%
2. Asset management	4	6%
3. Inventory management	1	1%
III. Funding and external stakeholder relations	**8**	**12%**
1. Resource mobilization and management	8	12%
IV. Governance and accountability	**7**	**10%**
1. Supervisory structures	4	6%
2. Risk management	2	3%
3. Performance management	1	1%
V. Budget and cash management	**5**	**7%**
1. Financial management	5	7%
VI. Human resources and unethical behaviour	**4**	**6%**
1. Staffing structure	2	3%
2. Ethics	2	3%
VII. Information and communications technology and information security	**3**	**4%**
VIII. Safety and security	**2**	**3%**
IX. Fraud and misuse of resources	**2**	**3%**
X. Natural disasters and epidemics	**1**	**1%**
Total	**69**	**100%**

Annex 3

Recommendations unresolved for more than 18 months

I. Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two recommendations — high priority; open 36 months)

1. Two recommendations pertain to the Office of the Executive Director agreeing to issue an Executive Directive that states the strategic vision and implementation framework for the UNICEF resource mobilization function, outlines the roles and responsibilities assigned to the Public Sector Alliances and Resource Mobilization Office (now Public Partnerships Division or PPD) and other UNICEF organizational units; establishes a strategy and requirements to improve the quality and timeliness of donor reports at the global level; and clarifies the responsibilities of PPD and the regional offices regarding oversight and support on donor reporting.

2. Status: *According to the latest PPD update in November 2016, PPD, together with the Private Fundraising and Partnerships (PFP) Division, was close to completing phase 1 of a resource mobilization roles and responsibilities review, and significant progress had been made recently in the review of current functions and value chain of the resource mobilization function. A multifunction reference group was scheduled to verify the high-level functional model and assignment of responsibilities, and to complete the phase 1 efforts. Both divisions are exploring the possibility of engaging external consultancy services to support the PFP Strategic Plan development, including completing a capability assessment. The recommendations continue to be relevant and will be closed upon the issuance of the revised Executive Directive for fundraising resource mobilization.*

II. Audit of the South Asia Regional Office, issued August 2014 (one recommendation — medium priority; open 28 months)

3. One recommendation pertains to the Division of Data, Research and Policy, together with the Division of Financial and Administrative Management (DFAM), revising its guidance for the preparation of regional OMPs, and including in the Integrated Results and Resources matrix the requirement to define the means of verification, including the definition of indicators and sources of information. This agreed action will also cover the OMPs of headquarters divisions and country offices.

4. Status: *The latest management update was in March 2016. The regional office stated that the action would be completed by December 2016, as the next round of OMP guidance would be linked to the next UNICEF Strategic Plan. The recommendation will be closed upon receipt of evidence of full implementation.*

III. Audit of Payroll Management in UNICEF, issued September 2014 (two recommendations — high priority; open 27 months)

5. One recommendation pertains to DFAM, together with DHR, clearly defining the responsibilities for follow-up, recovery and request for write-off of unrecovered amounts related to personal advance and recovery (PAR) accounts; and reviewing and reinforcing the processes to recover staff overpayments or to write off unrecoverable advances.

6. Status: *The latest DHR update was in November 2016. Subsequent to the transfer of the payroll function to the Global Shared Services Centre (GSSC), OIAI was informed that GSSC would provide DFAM with an initial analysis of outstanding PAR amounts, and thereafter GSSC, DFAM and the Division of Human Resources (DHR) would meet to review the next steps. It is anticipated that after management follow-up, some accounting corrections will be made and some of the balances may be written-off (with the amounts to be decided after analysis and discussion). This recommendation will be closed upon completion of the planned activities.*

7. One recommendation pertains to DFAM, in collaboration with the Information Technology Services and Solutions Division (now the Information and Communication Technology Division), DHR and the regional offices, reviewing and developing robust oversight and processing mechanisms and solutions to address payroll funding shortages; and to monitor, reconcile and account for all payroll funding reallocations and repayments between other resources grants, and between regular resources and other resources grants, highlighting the responsibilities of headquarters divisions, and country and regional offices (including quality assurance reviews).

8. Status: *The latest DFAM update was in November 2015, in which they stated that they were reconsidering how best to address this finding and would inform OIAI of the agreed action plan. Subsequent to the transfer of the payroll function to GSSC, DHR informed OIAI (in December 2016) that, in collaboration with GSSC, they had provided DFAM with information on the funding controls implemented in GSSC. The recommendations will be closed after actions to address them have been completed.*